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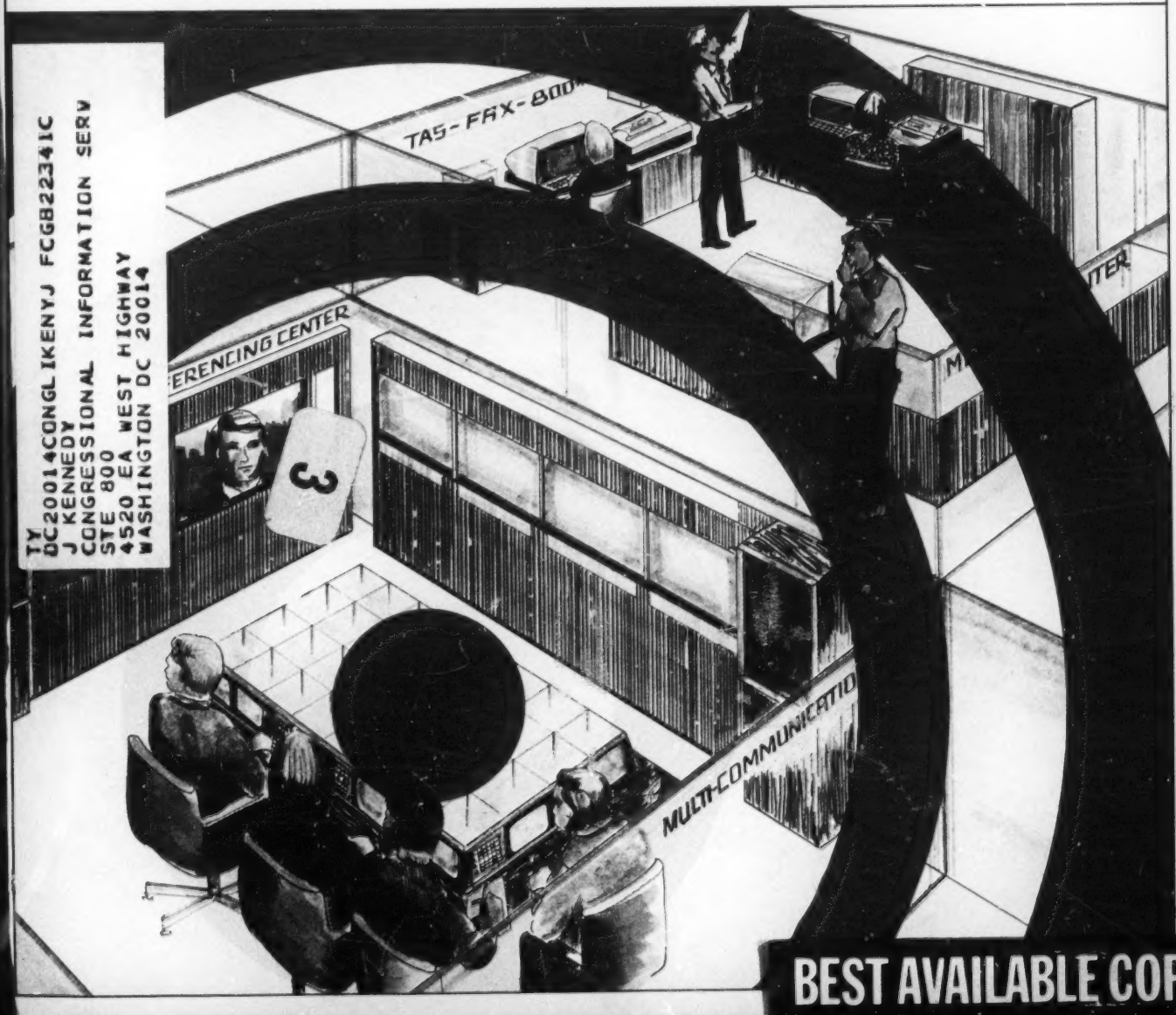

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Mergers and moderate growth cloud the TAS market forecast

Analysis of past trends among telephone answering services indicates their number will fall in the future due to market forces

TELEPHONE answering services (TAS) answer incoming calls with a live operator, who interfaces personally with the caller and takes messages. The answering services rely heavily on live operators in selling the professional image they provide clients, as opposed to the image provided by a telephone answering machine (TAM). Answering machines are the primary competition for TASs, and may be leased from the telephone company or purchased outright from outside manufacturers. The market is currently apportioned among these three services (Figure 1).

The entire telephone answering industry has been growing steadily. Growth for the TAS industry in particular is shown in Table 1.

These figures indicate an interesting trend. In the early and middle 1970s, the number of subscribers rose steadily, yet the increase in the number of TASs did not keep up with the increase in subscribers. Thus, each existing TAS grew, from an average of 150 subscribers in 1972 to an average of 189 subscribers in 1977. Receipts per TAS rose accordingly.

However, due to either response to increased demand or recognition of a good thing, thousands of new TASs were started between 1977 and 1980. With this increase in competition, the average size of a TAS dropped back to 155 subscribers. Any TAS that had expanded during the previous years may now be experiencing an erosion of its subscriber base, and may be hard pressed to maintain its profit margin. This is a major spur to the consolidation and merger activity currently taking place in the industry.

Market and technological changes

Continued on page 61

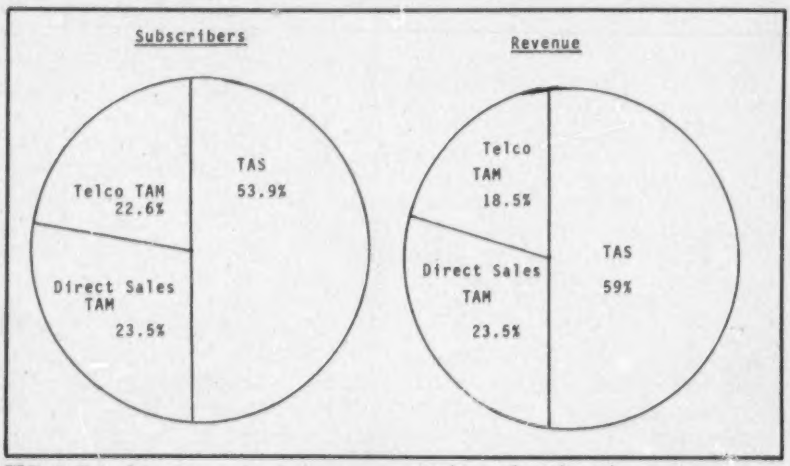

FIG. 1 *Telephone answering industry: current share of total market.*

Table 1

Growth of TAS industry

		Number of subscribers	Number of TASs	Receipts ($1000)	Subscribers per TAS	Receipts per TAS
	1972	720,000	4804	273,173	150	56,864
	1977	1,078,413	5700	493,500	189	86 579
(Est.)	1980	1,425,000	9167	640,000	155	69,816

This article is taken from a summary of a report on recent research conducted by Frost & Sullivan, Inc., a market research firm in New York. The report is entitled, "Telephone Answering and Radio Paging Services and Associated Equipment Markets," Copyright 1981. This has been printed here with permission.

are having a strong affect on the TAS industry. Previously, TASs were restricted by interconnect regulations to rental of TAS equipment from the local telephone company. Although that system had its disadvantages, chief among them being total reliance on telephone company rates and service, it had an important advantage for many—start-up costs were very low. Thus, many small TASs were started in a spare room or basement, serving a small number of local, often rural, clients.

Recently, however, purchase of equipment from either the telephone company or an outside manufacturer has been approved. This alone would not be sufficient to change the industry, but in combination with technological changes, it has had a major impact.

Technological advances have made the traditional cordboard obsolete. Few manufacturers are still providing them. Boards currently in service in the vast majority of TASs are old, and require more frequent and costly repairs. Telephone companies, in order to recoup these repair costs, are raising tariffs for the cordboards each year; they are becoming too expensive for many TASs. Through the purchase options, the larger, well-funded TASs are purchasing automated systems, which allow them to fix their costs for long periods of time, and offer stable pricing and superior service to subscribers. Many smaller TASs, which lack the capital or the desire to purchase their own systems, are unable to compete in terms of price. This would have little impact on the small, rural or suburban TAS without the advent of call forwarding. Originally, the TAS had to be located close to its subscribers, because each had to run a telephone line from its establishment to the TAS. It had to pay monthly mileage charges to the telephone company for that line. Call forwarding allows several subscribers to share a line, thus making it economically feasible for a large TAS in a city to serve clients in the suburbs or beyond.

The combination of these factors makes it difficult for the smaller TASs to compete effectively. Thus, recent years have seen an increase in merger and consolidation activity within the industry. In fact, there is likely to be a gradual leveling off and eventually a slight reduction in the total number of TASs nationwide as a result of mergers (Table 2).

As might be expected, there will be changes in the manufacturers' shares of the market due to these changes. The cordboard and key system manufacturers that currently have 95% of the market have not become involved in production of the new automated systems. Thus, as the decade progresses, their share of the market will decrease significantly. Of the companies in the automated end, the primary three currently are Amtelco, Candela and Telescan. However, during the latter half of the decade, they should see more competition from firms whose products are not yet widely distributed.

However, the fact that the telephone companies' manufacturing arms have not entered the market is not an indication that the telcos themselves have withdrawn from the market. Indeed, due to the cost of purchase and the unavailability of credit, it is predicted that, by the end of the decade, approximately 60% of all automated TASs will be renting systems rather than purchasing them. The local telephone company will continue to be the primary avenue for rental of TAS equipment. In fact, telephone company revenues through rental of TAS equipment (primarily automated) are expected to reach $197 million by 1990 (Table 3).

Table 3 also indicates that sales of automated systems will peak in 1986, and start to decline markedly toward the end of the decade. This is attributable to the predicted culmination of most of the merger and consolidation activity by that time. In order to remain competitive, most TASs will have to avail themselves of the automated equipment by that time, or they will have been merged with a larger, more competitive, automated firm.

It should be noted that the market for these systems is limited, and the recommendation is for planned production over the coming decade, as well as diversification into supporting product lines and services, preferably beginning now. Potential exists in the predicted merger of TAS with other telecommunication services (radio common carriers being the major natural extension) into a communications processing center for small businesses. □

Table 2

TAS industry forecast

	Number of subscribers	Number of TASs	Receipts per ($1000)	Subscribers per TAS	Receipts
1977	1,078,413	5700	493,500	189	86,579
1980	1,425,000	9167	640,000	155	69,816
1983	1,725,000	9600	770,000	180	80,208
1987	2,185,000	9500	950,000	230	100,000
1990	2,500,000	9275	1,105,000	270	119,137

Table 3

Automated sales forecast

	Number of systems sold	($1000) Dollar value of sales*	Of systems sold, number sold to telco for rental	($1000) Dollar value of telco sales*	($1000) Total telco revenues (all equipment)*
1981	152	23,385	0	0	124,000
1984	455	75,996	240	29,886	147,000
1987	759	136,096	600	82,566	173,000
1990	305	58,057	200	29,970	197,000

*Present dollars